

## Message Text

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DRAFTED BY: ARA/LA:PJDE VOS

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FM SECSTATE WASHDC

TO USDEL ATLANTA IMMEDIATE

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FOR ASSISTANT SECRETARY KUBISCH

FOLLOWING REPEAT STATE 079809 SENT ACTION LIMA,  
APRIL 19TH:

QUOTE LIMITED OFFICIAL USE STATE 079809

E.O.11652: N/A DECONTROL DEC. 31, 1974

TAGS: EFIN, EMIN, ETRD, APUB, PE

SUBJ: SOUTHERN PERU COPPER CORPORATION CUAJONE PROJECT  
NEGOTIATIONS

REF: LIMA 2857 AND 3001

1. CHARLES BARBER, CHAIRMAN OF AMERICAN SMELTING AND  
REFINI NNNRGGCO. (ASARCO) MAJOR STOCKHOLDER IN SOUTHERN PERU  
COPPER CORPORATION (SPCC) TELEPHONED ASSISTANT SECRETARY  
KUBISCH AND DESK ON APRIL 12. HE SAID THAT PERUVIANS ON  
APRIL 11 HAD INTRODUCED NEW AND UNACCEPTABLE CONDITIONS  
INTO CUAJONE PROJECT FINANCING NEGOTIATIONS. BARBER  
REQUESTED THAT FONMIN DE LA FLOR BE INFORMED (IF POSSIBLE  
BY THE SECRETARY) DURING THE MEETING OF FOREIGN MINISTERS  
THAT QUOTE THE CUAJONE PROJECT IS IN PERIL BECAUSE OF NEW  
PERUVIAN DEMANDS. UNQUOTE

2. FONMIN LEARNED OF CUAJONE PROBLEM EVENING OF APRIL 14  
AND REQUESTED THAT ASARCO PREPARE A MEMORANDUM FOR HIM  
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ON THE PROBLEM. DE LA FLOR ALSO REQUESTED THAT A COPY OF

THE ASARCO MEMO BE GIVEN TO CARLOS SANTISTEBAN, PERUVIAN  
ALTERNATE EXECUTIVE DIRECTOR AT THE IBRD.

3. TEXT OF ASARCO MEMO DATED APRIL 16, 1974 FOLLOWS:

BEGIN QUOTE SOUTHER PERU COPPER CORPORATION PURSUANT TO A

BILATERAL AGREEMENT WITH THE GOVERNMENT OF PERU IS  
DEVELOPING A MAJOR COPPER MINE IN SOUTHERN PERU. CON-  
STRUCTION BEGAN IN 1970 AND IS SCHEDULED FOR COMPLETION  
IN THE LATTER HALF OF 1976. TO DATE, SOUTHERN PERU HAS  
EXPENDED OVER US DOL. 170 MILLION ON THE PROJECT AND HAS  
ARRANGED FOR OVER US DOL. 400 MILLION IN LOANS TO FINANCE  
COMPLETION OF THE PROJECT. MORE THAN 40 BANKS IN EUROPE,  
JAPAN AND THE UNITED STATES ARE PARTICIPATING IN THE  
FINANCING ALONG WITH THE BRITISH EXPORT CREDITS GUARANTEE  
DEPARTMENT (ECGD) AND THE U.S. EXPORT IMPORT BANK.

THE CREDIT AGREEMENTS HAVE ESTABLISHED CERTAIN CONDITIONS  
WHICH MUST BE MET BEFORE THE FINANCING WILL BE AVAILABLE.  
NONE OF THE LOANS ARE GUARANTEED BY THE PERUVIAN GOVERN-  
MENT. THEY ARE PROJECT LOANS AND THE KEYSTONE OF THE  
SECURITY REQUIRED BY THE LENDERS IS THE MECHANISM WHEREBY  
ALL CUAJONE PRODUCTION OF BLISTER COPPER IS SOLD TO BUYERS  
OUTSIDE PERU AND THE PROCEEDS OF SALES ARE ASSIGNED TO A  
NEW YORK COLLATERAL BANK ACCOUNT AND HELD THEREIN FOR THE  
BENEFIT OF ALL THE LENDERS. IT IS ONLY THROUGH THE  
SECURITY PROVIDED BY THIS ARRANGEMENT THAT THESE BANK  
LOANS ARE POSSIBLE. UNDER APPLICABLE LAWS AND REGULATIONS,  
MINERO PERU, AN AGENCY OF THE PERUVIAN GOVERNMENT, IS  
REQUIRED TO APPROVE THE CONTRACTS FOR THE SALE OF BLISTER  
COPPER PRODUCED BY THE CUAJONE PROJECT. THE GENERAL  
PATTERN OF SALE WAS APPROVED BY MINERO PERU ALMOST A YEAR  
AGO AND THE PRECISE TERMS OF TWO OF THE CONTRACTS, THOSE  
WITH THE PRINCIPAL UNITED KINGDOM PURCHASERS, WERE  
AGREED TO IN JANUARY 1974.

SINCE LAST JANUARY, THERE HAVE BEEN REPEATED DELAYS IN  
THE NEGOTIATIONS FOR THE BALANCE OF THE CONTRACTS DUE TO  
THE CONTINUAL INJECTION OF NEW CONCEPTS AND REQUIREMENTS  
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BY THE PERUVIAN GOVERNMENT. LAST WEEK, ON APRIL 11TH,  
INSTRUCTIONS INCLUDING ENTIRELY NEW PRINCIPLES WERE ISSUED  
TO MINERO PERU WITH RESPECT TO CERTAIN OF THESE CONTRACTS.  
THE NEW INSTRUCTIONS REQUIRED THAT A PORTION OF THE COPPER  
BE SOLD DIRECTLY TO MINERO PERU AND THAT ALL OF THE COPPER  
EXCEPT THAT SOLD TO THE PRINCIPAL UNITED KINGDOM AND  
JAPANESE PURCHASERS BE REFINED AT THE REFINERY MINERO  
PERU IS BUILDING WITH JAPANESE TECHNICAL ASSISTANCE AT

ILO, PERU.

SINCE THE PRODUCTION RISK LIES IN PERU, THE LENDERS HAVE REQUIRED THAT THE MARKETING RISK BE ELSEWHERE. ALSO, SINCE THE PURCHASERS ARE PROVIDING FINANCING FOR THE MINE, THEY INSIST THAT AT LEAST A MAJOR PORTION OF THE COPPER BE AVAILABLE TO THEM AS BLISTER COPPER WHICH IS REQUIRED

FOR THEIR OPERATIONS.

THE ILO REFINERY OF MINERO PERU WAS DESIGNED TO REFINES THE PRODUCTION OF THE NEARBY TOQUEPALA MINE OF SOUTHERN PERU COPPER CORPORATION. THE REQUIREMENT THAT THE BLISTER COPPER FROM THE PRODUCTION OF THE CUAJONE MINE BE REFINED AT ILO IS, THEREFORE, AN ENTIRELY NEW REQUIREMENT WHICH IS NOT CONSISTENT WITH THE REQUIREMENTS OF THE FINANCING ARRANGEMENTS.

UPON BEING INFORMED OF THESE NEW REQUIREMENTS, REPRESENTATIVES OF SOUTHERN PERU INFORMED THOSE CONCERNED IN THE PERUVIAN GOVERNMENT THAT, UNLESS THESE NEW REQUIREMENTS WERE REVISED, THE FINANCING FOR THE PROJECT WHICH HAD BEEN ARRANGED WOULD NOT BE AVAILABLE.

WE WERE INFORMED YESTERDAY, APRIL 15TH, THAT THE GOVERNMENT OF PERU WOULD REVIEW THE MATTER AND THAT THE INSTRUCTIONS TO MINERO PERU WILL BE RECONSIDERED BY THE CABINET AT ITS MEETING TODAY, APRIL 16TH.

THE BASES FOR THE FINANCING AND THE ALLOCATION OF FUNDS BY THE LENDING INSTITUTIONS HAVE BEEN COMMITTED FOR ALMOST SIX MONTHS AND THE LENDERS HAVE EXPRESSED GREAT CONCERN OVER THE LONG DELAYS IN CONCLUDING THE SALES LIMITED OFFICIAL USE

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CONTRACTS WHICH ARE AN INDISPENSABLE PREREQUISITE OF THE FINANCING.

WE ARE HOPEFUL THAT THE APPROPRIATE AUTHORITIES OF THE GOVERNMENT OF PERU WILL BE ABLE TO REACH THE NECESSARY DECISIONS AND ISSUE THE CORRESPONDING INSTRUCTIONS SO THAT THE REASONABLE REQUIREMENTS OF THE LENDERS AND THE PURCHASERS OF THE CUAJONE PRODUCTION CAN BE MET AND THE COMPLETION OF THE CUAJONE PROJECT CAN BE ASSURED. C. F. BARBER. END QUOTE

4. SANTISTEBAN EXPRESSED GREAT INTEREST IN PROBLEM AND ON APRIL 15 CABLED FULL TEXT OF EXIMBANK PRESS RELEASE OF APRIL 12 ON CUAJONE LOAN TO MINFIN MARCO DEL PONT. UPON RECEIPT OF ASARCO MEMO ON APRIL 16 HE ALSO FORWARDED

THAT TO MARCO DEL PONT AND TO FINANCE MINISTRY DIRECTOR  
SUPERIOR LUIS GUIULFO. ON APRIL 18 SANTISTEBAN DISCUSSED  
THE MATTER FURTHER IN NEW YORK WITH FORREST HAMRICK,  
ASARCO EXECUTIVE VICE PRESIDENT.

5. BARBER HAS STATED THAT IN NEGOTIATIONS BETWEEN SPCC  
AND MINEROPERU BETWEEN APRIL 12 AND APRIL 16 INDICATIONS  
MIXED BUT THAT SINCE APRIL 16 THERE HAS BEEN NO FURTHER

RESPONSE FROM PERUVIANS. HE IS SOMEWHAT ENCOURAGED BY  
FACT THAT MARCO DEL PONT WILL ASSUME MINES AND ENERGY  
PORTFOLIO DURING FERNANDEZ MALDONNADO TRIP TO MIDDLE EAST  
BECAUSE FINANCING MUST BE SETTLED WITHIN NEXT FEW DAYS.  
IN HIS VIEW MATTER WILL NOT WAIT UNTIL FERNANDEZ  
MALDONADO'S RETURN.

6. ASARCO MEMO AND SPANISH TRANSLATION GIVEN TO DE LA  
FLOR ON APRIL 17 WHO SAID HE WOULD STUDY IT. SPANISH  
TRANSLATION OF MEMO POUCHED TO EMBASSY. KISSINGER

UNQUOTE KISSINGER

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